

Action Item

Fiscal Policy and Analysis Committee

Approval of the Minutes of the January 15, 2002,
and February 5, 2002, Meetings

MINUTES

Fiscal Policy and Analysis Committee

Meeting of February 5, 2002

Committee members present Olivia K. Singh, *Chair*
Susan Hammer, *Vice Chair*
Irwin S. Field
Lance Izumi

Committee members absent Kyo “Paul” Jhin
Odessa Johnson
Robert L. Moore
Alan S. Arkatov, *ex officio*
Carol Chandler, *ex officio*

Other Commissioners present

Guillermo Rodriguez, Jr.
Evonne Seron Schulze
Rachel E. Shetka
William D. Campbell
Melinda G. Wilson

Call to order Chair Singh called the Fiscal Policy and Analysis Committee to order at 11:20 a.m. in the California Chamber of Commerce, California Room, Esquire Plaza, 1215 K Street, 14th Floor, Sacramento, and reported on a discussion regarding State funding for higher education at the Committee’s special meeting held on January 15, 2002 in Sacramento at the California Postsecondary Education Commission, Conference Room, 1303 J Street.

She said the impact of the State budget on access to educational opportunities for California’s college students was of particular concern. At the January meeting, representatives from each of the public higher education systems, as well as the California Student Aid Commission, presented their systems budgetary plans for the upcoming fiscal year. Four important points that flowed from the meeting were:

- ◆ Each of the representatives from the segments was pleased that the Commission held this type of meeting, the first of its kind.
- ◆ The representatives generally expressed positive comments regarding the Commission’s work, as well as for the assistance and leadership that has been provided in terms of planning for the future of California’s higher education and student access.
- ◆ Both the University of California and the California State University representatives expressed the desire for the Commission to once again revisit a State student fee policy.
- ◆ Each system asked for the Commission’s support and assistance in obtaining the fiscal resources necessary for capital expansion in order to accommodate the upcoming surge of students.

Chair Singh said the meeting was a good opportunity to become more aware of budgetary challenges. Chair Singh expressed the Commission's desire to continue to work with the segments in very positive and constructive ways to ensure that eligible Californians have the opportunity they deserve for a higher education. Committee Chair Singh provided a brief synopsis of the University of California presentation follows:

The University of California expressed concern over taking huge cuts in one year, and will be pushing some of the problems out to future years, making it very hard to predict when the UC system would be in better shape. With respect to professorial hiring and faculty salaries, the University of California has lost ground and continues to loose ground.

Student fees was a major topic of the presentation; it is a priority of the University to obtain some buy-out funding if possible and develop a regular fee increase schedule that people can agree to. The lack of a student fee policy that California could follow in good times as well as bad was very disappointing to the University.

In the area of capital outlay the University believes the Commission can be very helpful.

Commission Chair Arkatov asked Julius Zelmanowitz, vice provost for Academic Initiatives for the University, what might be happening with the May Revise of State expenditures and revenues in terms of danger zones around academic programs.

Vice Provost Zelmanowitz stated that the campuses are working through their own scenarios for what they might have to do in the way of revising academic programs. As was the case a decade ago, they are doing everything they can to protect the academic programs. He said in the area of system-wide programs there are two programs that have had rescissions and cuts, the AP on-line program with a four million dollar rescission and the Digital California project with a 15% cut.

Vice Provost Zelmanowitz said the good news is that if these levels of cuts can be stabilized. He envisioned a stretching out of timelines with no permanent damage to the programs.

In summary Chair Singh said the three major concerns that will continue to be monitored and worked on with the University of California are the following:

- ♦ Quality in terms of salaries, staff funding, access, student fee issues and capital outlay.

The California Student Aid Commission presentation included the following:

- ♦ A great deal of information regarding how effective the setting up of information technology must be to make the program run.
- ♦ The number of people who received money.
- ♦ The number of California students who are desperately poor and the number of people who are potentially eligible to receive the grants.
- ♦ The issue of outreach.

The California State University system presentation included some of the following:

- ◆ Concerns regarding the recoil from the cutbacks of the early 1990s which are still having effects on the State University System.
- ◆ The partnership agreement cutbacks affecting the system.
- ◆ The requests of the Commission to provide support in the areas of capital outlay, partnership funding strategies, and full funding of year-round operations.

The California Community Colleges presentation included discussions regarding the lack of benefit in raising student fees, because the funds are used to offset general fund resources.

**Highlights of the
Governor's
proposed 2002-
2003 state budget**

Staff member Kevin G. Woolfork presented Tab 12, a review of the proposed Governor's Budget for 2002-03. He said the budget addressed a \$12.4 billion revenue shortfall. He presented some of the ways the Governor Davis proposes to deal with the shortfall, including: \$2.5 billion in spending reductions in the current year and extending some of these cuts into the budget year, using accounting mechanisms such as internal fund borrowing and fund shifts, delaying some expenditures to future years, and making some specific programmatic reductions.

Mr. Woolfork noted that the Governor's Budget proposed \$323 million in budget cuts for the three higher education systems; he directed the commissioners to several displays in the agenda item which describe various components of the governor's proposed 2002-03 higher education budget.

In response to a question about University of California outreach efforts into K-12 education, Mr. Woolfork said that the University staff had provided a detailed description of proposed reductions for the outreach programs and he offered that information to the Commissioners.

Mr. Woolfork said that higher education has fared better in the proposed budget than many other areas of State government and that K-12 education's anticipated funding increases are greater than those in all of the State's other program categories. He noted that Commission staff are working with legislators, their staff, and representatives of the administration to represent the Commission's budget policy priorities as they work on the 2002-03 State Budget.

**Faculty salaries in
California public
universities,
2002-03**

Staff member Murray J. Haberman reported on the lag between the salaries paid to faculty at the California State University and the University of California and those projected to be paid at each system's group of comparison institutions. He noted that the information before the Commissioners is preliminary in that staff does not get all information needed from the University of California and the State University in time for preparing the calculation for the Department of Finance in December. He indicated that data for seven of the eight comparison institutions for UC has been received, as well as data for 19 of the 20 comparison institutions for CSU.

Historical trends for compensation compared to parity calculations were provided on a display for the Commissioners. Some of the points Mr. Haberman noted included:

- ♦ The current year lag for the California State University is 6.7%, which is projected to grow to 10.6%.
- ♦ Fifty percent of CSU faculty are full professors compared to 37% in their comparison group.
- ♦ The parity calculations for the University of California indicate a current year lag of 2.2% for UC faculty with a projected lag of 6.9%.
- ♦ UC individual rankings are very close to the median of their comparison institutions.

Mr. Haberman indicated that there are implications for competitiveness if faculty do not receive salary increases that are necessary to recruit and retain faculty. In response to a question regarding benefits by Commission Chair Arkatov, Mr. Haberman indicated that both systems offer reasonably competitive benefit packages to both their faculty and their staff. Several commissioners commented on the report's process, and Mr. Haberman said staff would return with a final report at the April meeting.

Adjournment Having no further business, Chair Singh adjourned the Fiscal Policy and Analysis Committee at 12:16 p.m.

MINUTES

Fiscal Policy and Analysis Committee

Meeting of January 15, 2002

Committee members present Olivia K. Singh, *Chair*
Robert L. Moore
Alan S. Arkatov, *ex officio*

Other Commissioners present
Evonne Seron Schulze
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Call to order Committee Chairperson Olivia Singh called the Tuesday, January 15, 2002, meeting of the Fiscal Policy and Analysis Committee to order at 9:12 a.m. at the Commission's conference room, 1303 J Street, Suite 500, in Sacramento. She asked for a call of the role.

Call of the role Executive Secretary Judy Harder called the roll. Three committee members were present.

Discussion The Committee heard presentations from Larry Hershman and Debbie Obley of the University of California, Wally Boeck of the California Student Aid Commission, Richard West representing the California State of University, and Patrick Lenz of the California Community College Chancellor's Office concerning their respective budget priorities for the 2002-03 State Budget and the impact of some of the Governor's proposed budget cuts on their systems.

The attached document summarizes the discussion. No action was taken by the Committee.

Adjournment Having no further business, Chair Singh adjourned the meeting at 3:30 p.m.



Impact of 2002-03 Budget Proposal on Higher Education

Introduction

On January 10, 2002, Governor Gray Davis proposed a California budget for 2002-03 that is designed to address an anticipated State revenue shortfall in the magnitude of \$12-14 billion. As a largely discretionary-spending program, proposed spending on public higher education in California raises several concerns.

Under the governor's proposal, General Fund expenditures for postsecondary education are proposed to increase 0.5% to \$10 billion. Overall, State, local, student fee and lottery funding is proposed to increase 2.5% to \$15.2 billion. The budget does not propose increasing system-wide student fees but it eliminates the reimbursement given to institutions in prior years for holding student fees constant.

In total, the California Community Colleges (CCC) will see a 1.7% increase in funding, the California State University (CSU) a 0.8% increase and the University of California a 1.0% increase. The California Student Aid Commission (CSAC) is slated to receive a 28% increase primarily for the continued expansion of the Cal Grant Entitlement Program and the California Postsecondary Education Commission (CPEC) is targeted for a 12.8% decrease.

On January 15, 2002, the Postsecondary Education Commission's Fiscal Policy and Analysis Committee conducted a special meeting to review the impact of the governor's proposed budget on higher education. Participating in the meeting were representatives of the University of California, the Student Aid Commission, California State University, California Community Colleges, and the Association of Independent California Colleges and Universities. The meeting was also attended by staff from various legislative offices, as well as the Legislative Analyst's Office.

Each of the representatives discussed potential budget cuts and how they will affect the respective higher education systems. They also addressed the following questions:

- ◆ If budget reductions occur, what are your plans for ensuring that all eligible students continue to have access to the programs that you offer?
- ◆ What are your plans for student fees, student financial aid funding and for ensuring the general affordability of California higher education?

- ◆ What efforts will be undertaken to preserve the quality of the programs you offer?
- ◆ What areas and/or programs would be most vulnerable if budget reductions are imposed?
- ◆ What are your plans for the intersegmental programs funded in your organization's budget? Are they more vulnerable to potential reductions than other institutional programs and initiatives?
- ◆ How can the Postsecondary Education Commission be most helpful in terms of budgetary matters?

The following report summarizes their comments on the impact of the cuts and the potential for working together to mitigate the worst of the damaging effects. Each section begins with a Commission summary of budget provisions proposed for 2002-03.

**University
of California**

Larry Hershman and Debbie Obley

The Governor's proposed budget for 2002-03 for the University of California includes the following:

- ◆ \$4.5 billion in State, local, student fee and lottery funding, a 1.0% increase (including a \$48 million/1.5% increase in General Fund base funding).
- ◆ \$64 million to fund 3.9% enrollment growth (7,100 FTE students).
- ◆ \$85 million for 19 capital outlay projects.
- ◆ \$279 million to fast track seven additional projects, including the University Merced and the UC Davis Veterinary Medicine expansion.
- ◆ \$103 million in program reductions (Minority Outreach Programs, energy costs, teacher training and institutional financial aid programs).

Mr. Hershman's comments:

Because of the approach the governor has taken with this budget proposal -- that is, not taking huge cuts all in one year but instead pushing out some of the problem to future years -- it appears that the State budget will be tight not just this year but also for several years in the future. That makes it especially important for all of higher education to work together on how to deal with the impact.

The University of California has worked diligently on a Partnership Agreement with the administration that covers both resources and ac-

countability. The University of California believes that all accountability requirements have been met, but for the second year in a row the resources component of the agreement will not be provided.

As the budget was negotiated, the priority of the administration was to ensure access. As a result, access is fully funded. Growth is running about 4.0% a year, and the governor honored the basic commitment to provide funding for enrollment growth. The budget also keeps the UC system moving toward year-round operation, providing the funding to add UC Davis to the three campuses (Berkeley, Los Angeles and Santa Barbara) that are already operating with a full summer session. This is a high priority for the University of California, not to save money but as an absolutely essential component for accommodating enrollment growth. The numbers for the three campuses last summer were spectacular -- three times the students anticipated.

The good news, then, has to do with access and CPEC has been instrumental in communicating the importance of providing access and funding for enrollment growth to meet the needs of the State. But with respect to quality, the University of California has lost ground and continues to lose ground.

Issues of concern to the University of California include quality, student fees, and capital outlay funding. The following are key areas of the budget where the University of California was not successful in having its priorities met:

- ◆ **Salary increases** – The Partnership Agreement provides for 4.0% growth for compensation increases. The current year's actual increase was 2%, and the proposal provides only 1.5%. This means the University of California is falling significantly behind in the effort to remain competitive in attracting faculty. There were serious cuts in the early 1990s. The University dedicated almost all resources over four years to making up those cuts for faculty, and staff saw very little gain. The University of California would not be able to do that again, so it may take years to catch up. This is an area that is key for quality. During a period of high student enrollment growth, the University will have to recruit many faculty and staff and the system needs to be competitive to get top-quality people.
- ◆ **Core support** – The Partnership Agreement calls for a 1.0% increase each year to address areas of the budget that have previously experienced shortfalls, for example, maintenance, instructional technology, and libraries. This was acknowledged as a critical area, and it was funded for a few years -- but not in the current budget proposal. This will need to be recouped at some point in the future because it is critical for the University to get back on track in these areas.

- ◆ **Student fees** – This is the University of California’s second highest priority. The budget proposal envisions no student fee increase but also eliminates the “buyout” that reimburses the University for not increasing fees. There is some speculation that the University might raise fees despite the governor’s proposal, but that is difficult to do with the governor taking the position he has taken. So it is a priority for the University to obtain some buyout funding if possible. But for the long run, what the State really needs is a regular schedule of fee increases that people can agree to. Other states are raising fees to ensure that they provide a quality program. The lack of a student fee policy that California will follow in good economic times as well as bad is very disappointing. For the long run, the State needs a sensible policy. The Postsecondary Education Commission had offered a policy that tied fees to the cost of instruction. That is sensible but the politics did not seem to work. The University of California wants to raise fees in tandem with the growth in personal income, another sensible approach. It is too late for this year, but the University of California would like to see everyone working on this together to create a policy that could be advocated for future years.

- ◆ **Targeted cuts** – the University fought hard and largely was successful in making sure that cuts in this budget are targeted rather than unallocated, which causes deterioration in basic funding. The areas are mostly those where there have been big increases in recent years, including outreach and teacher preparation. The core outreach programs were protected, with others taking deeper cuts. Some cuts went further than the University of California wanted. School partnerships were cut deeply, and the dual admissions effort with the community colleges should have more funding. These are areas that the University will work on with the Legislature. Funds for energy were also reduced by \$25 million. This may be a problem since the contract with Enron ends in March and the University’s electricity costs may go up 50 to 100%.

- ◆ **Capital outlay** – The budget proposal speeds up seven the University of California capital outlay projects, which is very welcome. This is another area where the Commission can be very helpful. The capital outlay study that the Postsecondary Education Commission produced was very important; no one has done a better study. The most recent bonding proposal (\$10 billion in bonds every two years for K-12 and higher education) would give higher education \$1 billion a year for capital outlay – not close to what is needed for any of the segments, but a reasonable compromise.

To sum, the three areas where the Commission can be most helpful to the University of California is in stressing that quality is as important as access (it’s important to get back to the Partnership Agreement on salary

and other cost increases), in providing leadership to set a student fee policy, and in continuing to press for additional capital outlay funding.

Q&A

1. The Legislature has asked for budget priorities that relate to technology. What are the University's priorities in this area?

Technology is part of the un-funded 1.0% increase provided in the Partnership Agreement. It is a high priority (about a third of the 1.0% supports technology) so getting this funding back is important. The University of California has a multi-year plan to make the Internet available to all faculty and students, and this reduction will impact the University of California dramatically. The University of California fought to keep the funds intact last year and the Legislature agreed. The irony is that the budget does retain funding for the University to help K-12 schools get on to the Internet.

2. The capital outlay proposal calls for a three-way even split (a third, a third and a third) between the different segments. How does UC stand?

All segments need at least that amount of money – seismic needs, the need to maintain existing facilities, ongoing costs, plus needs based on the Commission's analysis of space required to meet enrollment growth. So the funds available will not be enough for any of the systems, but at least it makes sense. One disappointment mentioned relates to funding for UC Merced. The University of California built its budget thinking that there would be \$330 million a year plus the funding for the new campus at Merced. At this point, the administration has said Merced has to come out of that \$330 million so that is going to cost an average of \$25 million a year for five or six years and cause other projects to be deferred.

3. How does UC determine where to invest capital outlay funds to address regional needs?

The University of California weights allocations based on existing facilities and individual campus needs. UC Berkeley, for instance, has a high need to maintain facilities. But enrollment growth is a big factor, and the campuses that are growing the fastest are getting the most funds. Preference is also given for timing – some campuses can do things quickly, so when the funding is there to move up projects by six months the priority goes to the campuses that can actually get it done. Campuses are given targets, they develop plans and then there is give-and-take, a balancing process.

4. Does it make sense to accelerate the construction of UC Merced? Will doing so take away funding from existing campuses?

A lot has been invested in planning already, so the sooner students are enrolled, the sooner there will be a return on that investment. UC Merced will not only accommodate additional enrollment growth; but perhaps more important, it also meets the need to have greater access for students in the valley. The University was comfortable with the original schedule, but the governor has asked for acceleration. UC Merced is important to address access, particularly for transferring community college students.

**California Student
Aid Commission**

Wally Boeck

The Governor's proposed 2002-03 State Budget includes:

- ◆ \$734 million in State funds, a 28% increase.
- ◆ \$694 million for all types of Cal Grants, an increase of \$155 million (28%).
- ◆ Total projected new financial aid awards to needy students: 33,325.

Mr. Boeck's comments:

A year and a half ago, California created the Cal Grant entitlement programs, a real and sustained commitment to ensuring access to higher education. This year, projected expenditures for the California Student Aid Commission (CSAC) will come to \$571 million for local assistance to students. Next year, that amount is increased to \$736 million.

The current year's demonstrates the commitment Governor Davis and the Legislature that they provide all necessary resources for the new Cal Grant programs. But program did not end up with anywhere near the number of possible entitlements.

The press says that the Student Aid Commission did not meet the goal -- but there really is not a goal because we do not know what the goal is. For the Student Aid Commission to know how many students should receive these entitlements, we have to know the grade point average (GPA) of those in the graduating class and also have an economic profile of the graduating class. Courtesy of what the high schools have accomplished in the past year, the Student Aid Commission now has a statistically valid sample of GAPS. CSAC learned that 11% of graduating seniors did not reach a 2.0 or better GPA. That is 37,000 students out of the 316,000 who graduated last year. Those students are not eligible for Cal Grants; the main policy concern regarding them is how to get that segment of students up to the level where they can participate in higher education.

Even with the GPA information, until the Student Aid Commission knows about the economic profile of a graduating class, the number of students meeting the grant requirements is not clear. One has to have the

economic profile matched to the GPA information to determine how many students are eligible for grants. This year's budget was large enough to fund all possible entitlements, so it is not surprising that all of the money was not used. Next year's budget is based on better numbers and a best estimate of how many entitlement awards will be needed.

There are several key areas of concern, even with the increased funding in the proposed budget. Those include:

- Cal Grant Bs – Cal Grant Bs, which are designed for students with lower grade point averages, provide a subsistence award of up to \$1,551 annually for up to four years with the potential for a tuition award added in years two through four. This means is that the award pays a lesser amount in the first year but a student has a potential to receive more during the four years total than under a Cal Grant A since tuition is added to the subsistence amount rather than replacing it. A critical question is whether the program be giving the least amount of money to the poorest students in the first year, and will this have some impact on their persistence rate past the first year?
- Competitive grants – More than 72,000 students who qualify for competitive Cal Grants were not able to receive them because funding is only provided for 22,500 awards. The population of students trying for competitive grants may well subside over time as every high school student has the opportunity to obtain a Cal Grant entitlement right after graduating from high school, but for now there is far more need than resources allocated. If California had ample funds, the Student Aid Commission would want to give each of the 90,000 students who apply for a competitive grant assistance.

This past year, the Student Aid Commission made a monumental effort with outreach to high school students. Before the revised Cal Grant program, about 31,000 grants were given out. This past year the number was more than 48,000. One in 10 high school students used to get Cal Grants; the figure is now one in seven.

Q&A

1. What is the nature of CSAC's outreach program, particularly with regard to students who do not speak English as a first language?

The California Student Aid Commission has about \$400,000 for outreach. Given that level of budget, the program produces paper materials and videos that are distributed to all of the high schools in the state. The videos are in English and Spanish and are accompanied by a tip sheet on filling out the Free Application for Federal Student Aid (FAFSA) form, as well as a teacher's guide. The biggest hurdle at the

senior level is getting people to fill out the FAFSA correctly. The printed materials are blanketed across high schools and post-secondary institutions. The California Student Aid Commission would like to have materials in as many as eight languages, but the budget is not adequate.

In addition, the Student Aid Commission is using \$1.5 million in funds that come from running the loan guarantee program to run ads on the radio and conduct other outreach between Jan. 16 and March 2. The California Student Aid Commission is sponsoring College Goal Sunday on February 24, with more than 300 high schools hosting an afternoon event with professional assistance available to help parents and students complete the FAFSA forms.

The most successful outreach would be to teach the FAFSA in high school such as part of the economics or government class. If it were part of the curriculum that would get past the problem of trying to find one-on-one time with parents. The form would be given to the students to take home, they could work on it with their parents, and then they could bring it back for computer entry.

The Student Aid Commission is doing what it can for high school seniors, but the breadth of outreach is not there yet.

2. What does CSAC expect the future of competitive grants to be? Was there a movement in the Legislature to provide more funding?

The perfect number of competitive grants would be closer to 80,000 or 90,000 since that is how many students were qualified (were needy and had the grades). And a fair portion of the Legislature was interested in increasing the pool of competitive grants, but with California facing fiscal constraints it is unlikely.

Over time, it would be rational if the number would diminish as high school students get entitlement grants. But another side to it is that there will always be those out in the population who are not recent graduates. The policy should be to motivate those people who do not have a higher education to go back, so it is possible to continue to use every type of grant.

When one looks at the different populations, it becomes clear that the program is dealing with the really poor students. The entitlement students had a GPA of 3.16, an average family income of \$27,000 and an average family size of 4.3. For the competitive grant students, the GPA and family size was much the same, but the family income was \$16,000. In comparison, the community college population has a family size of 3.4 and only \$14,000 average income.

3. How can CPEC be helpful to CSAC?

First and foremost on The Student Aid Commission's list is outreach. The California Student Aid Commission had a support position on SB 1070 (Ortiz), which would have allocated \$5 million for outreach and used college students to teach students how to fill out the FAFSA. The bill addressed the need for systemic outreach throughout the school system, delivering messages continually to the whole population. Another opportunity for outreach would be the Scholar Share account, with the State putting \$100 into an account for each baby born. For 18 years, once a quarter the family would receive a statement and messages could be delivered with that.

Another area is recognition for the job that the Student Aid Commission's staff has done to develop the system to support the new Cal Grants. They've delivered five new systems on deadline and within budget.

4. Are there other states comparable to California?

The closest is probably the state of New York, but California has a different pricing structure from any other state, so there is no real comparison. California is at the front of the wave. Other states recognize that California is leading the nation.

California State University

Richard West

The Governor's proposed budget for 2002-03 includes:

- \$3.5 billion in State, local, student fee and lottery funds, a 0.8% increase (including a \$38 million/1.5% increase in General Fund base funding) for California State University.
- \$78 million to fund 4.0% enrollment growth (12,270 FTE students).
- \$259 million for 25 capital outlay projects.
- \$90 million in program reductions (energy costs, teacher training, institutional financial aid programs, teacher recruitment).

Mr. West's comments:

The mission of California State University (CSU) is to provide accessible, affordable, high-quality education to the students of California. The system serves 389,000 students (314,000 full-time equivalent students) at 23 campuses and six off-campus centers. The FY 2001/02 General Fund budget for CSU is \$3.4 billion and the capital budget is \$225 million.

The average age of students in the system is 26.3, with about a mix of one half new freshman and one half transfer students. The average time to obtain a degree is five and a half years for entering freshmen and three and a half years for entering transfer students. About 52% of students receive financial aid.

The State University has 41,600 employees, with 9,921 tenured or tenure-track faculty and 5,204 non-tenured instructors. The average age of the full-time faculty is 51. As older cohorts retire and recruiting efforts are undertaken to replace them, the average age is gradually dropping. The system conducts about 600 to 700 searches a year.

The last major cutback was during the early 1990s. State funding decreased by 12.3%; that was the net reduction after an increase in student fees. Campus enrollment dropped more than 30,000 FTEs and non-tenured faculty decreased. Average class sizes increased, maintenance expenditures were deferred and instructional equipment acquisitions were delayed. Both access and quality were impacted.

The budget crisis of the early 1990s also sparked a renewed commitment to operational efficiency. This included streamlining administrative processes, cooperative contracting with the UC system, quality improvement initiatives and a new funding methodology. As California cut funding, the State University gained substantial operational flexibility and that allowed the system to become more efficient.

Another outgrowth and aftermath of those times was the technology investment strategy that was developed. The Information Technology Strategy (ITS) plan was initiated in 1993 and approved by the Trustees in 1996. It has been consuming a great deal of the capital budget, but the State University leaders believe it is an important plan. The key elements include:

- Network Infrastructure: \$250 million in the last three years for campus networks.
- Instructional Technology Projects: the development of a library of components to use in the curriculum.
- Student Services Enhancements: a cooperative system between the State University, community colleges and the University of California to serve students through one network.
- Common Management Systems: the replacement of old systems and creation of uniformity across all campuses.

For the past seven years, funding for the State University has followed a Partnership Agreement that provides a 4.0% increase in General Fund support, funding to cover increased costs for enrollment growth, a State

buyout to compensate for forgoing fee increases and a 1.0% increment to cover long-term needs. The Partnership Agreement has provided an additional \$1.251 billion over the seven years, and in return the State University has met the required accountability measures.

The benefits of the Partnership Agreement are its predictability, stability and accountability. Its shortcomings are that it is highly dependent on the General Fund, which varies with business cycles, and the underlying structural budget deficiencies are not addressed. Nonetheless, it has been a good process up until now. It was not funded fully this year, and now it won't be next year either under the Governor's Budget.

Turning to the issue of student fees, the State University has the lowest fees of any of the 20-22 universities that are used for comparisons in other areas. The national average increase for fees was 7.5% last year. CSU is not keeping up with other states. They have a broader base of funding, which means they can be more competitive on faculty salaries. The State University would welcome the Commission's help in getting a policy that the Legislature would adhere to. It is not so much the policy that is needed as the adherence. The Partnership Agreement actually had negotiated a tacit fee policy, but the symbolism of the lack of buyout funding next year is critically important.

So where the State University stands today is that the legacy of the early 1990s has left accumulated deficits that were not fully addressed during the economic recovery of the late 1990s. In addition, the current funding methodology – the Partnership Agreement – does not recognize actual costs. The result is that current funding levels erode the ability of the State University to provide access and maintain quality.

The structural funding deficiencies include:

- Marginal Cost – Increases to cover marginal costs do not accurately reflect true salary demands, nor do they cover the inflation of fixed costs that go on after enrollment growth stops.
- Graduate FTE – the State University was not allowed to increase graduate student fees, as the University of California was, even though there is a higher cost to educate graduate students. In addition, full-time students are counted at 15 units, rather than 12 as they are elsewhere.
- Operations – The cost per square foot for maintenance needs to be reviewed.
- Long-Term Needs – This includes deferred maintenance, instructional equipment and libraries.

The total budget deficiency from these factors is about \$716 million.

Another area of concern is new campuses and off-campus centers. The State does not have a fiscal strategy with respect to off-campus sites. Parts of the state are growing very rapidly, such as the Coachella Valley where communities have donated major contributions to secure an off-campus center. For the last three sessions, there have been bills to create new centers – but there is no underlying policy or fiscal basis to create them. The pressure is on the State University to study these areas but there are important considerations, including the lack of funding for initial start-up and ongoing maintenance, the lack of economies of scale – these centers have a very high cost per student – and the infrastructure demands and distance learning equipment required by the centers. The centers are a valuable tool for providing access and service, but there should be a strategy for their creation.

Capital outlay needs also continue to be a concern. The State University's projected need through 2006-07 is \$3.6 billion. The anticipated funding at this moment is only \$1.5 billion, so this is a serious shortfall. The State University is embarking on creative financing at campuses like Channel Island and Monterey Bay, but that will not be enough to make up the gap.

As enrollment grows, the State University is facing challenges to its mission. Four campuses have broad-based impaction and 12 have selected program impactions. When campuses are full, not all eligible students can be admitted and the Trustees' policy has been to give preference to local students. In moving to meet enrollment demand, the State University is relying on the use of off-site centers, is expanding the use of academic technology and is moving to year-round operations. Year-round operations are proving very successful, with 6,872 FTES in the summer of 2000 growing to 16,500 FTES in the summer of 2001.

The State University is working hard to respond to the challenges, balancing access (enrollment), affordability (fees) and quality (class size). The vulnerable areas are maintenance of the physical plant, equipment and library acquisitions, and class size/access. The State University is focused on continuing the intersegmental partnerships and improving outreach.

The Commission could assist the State University in several areas:

- Support efforts to correct structural funding deficiencies.
- Support Partnership funding strategy.
- Support full funding of year-round operations.
- Address appropriate fee policy.
- Balance needs at existing campuses with new and existing off-campus centers.

- Support a new capital bond.

Q&A

1. Are new campuses and off-campus centers a drain on existing campuses?

The State University has worked hard to keep the capital demands of new facilities off other campuses. For instance, the Monterey Bay campus used federal funding, creating a capacity for 4,000 to 5,000 FTE entirely with non-State dollars. The CSU Channel Island campus is expected to grow to 11,000 to 12,000 FTE using the revenue stream from a housing development. The part that the State University is really missing is a good strategy for funding as a campus grows. Marginal funding doesn't cover fixed costs and there has to be some recognition of that.

2. Are The State University's faculty and staff ratios in line with other institutions?

Overall, the ratio is 19.5 students to one faculty member. Seventeen to 19 students per faculty member is common, so the State University is doing pretty good. On the staff side, it is about one staff to one faculty member, and that's stayed pretty consistent over time.

3. How do you prioritize what needs to be done to balance the funding shortfall and the needs?

Funding enrollment growth is always the first priority. Then, how do you protect the program quality? The State University is not whole now because of the losses during the early 1990s, so there isn't much flexibility to cut. It could not sustain access if there were a reduction beyond 2.0%. The priority has to be to target things that are not in the core program (enrollment, student services). The partnerships with K-12 education and CalTeach teacher recruitment are part of the State University's program, but the focus would have to be on the students. The CSU Board of Trustees has said it does not see how levels of service can be sustained without a fee increase -- so for the past few years, the State has bought out the needed increases. But without that funding, coupled with the fact that there has been a reduction in private giving this past year, the situation is critical. California has not developed a basic tax policy that can support needed services. The State University would really like to see consideration of a long-term stable funding mechanism.

**California
Community
Colleges**

Patrick Lenz

The Governor's proposed 2002-03 State Budget includes:

- \$5.2 billion in State, local, student fee and lottery funding, an increase of 1.7% for the California Community Colleges.
- \$119 million to fund 3.0% enrollment growth (31,864 FTE students).
- \$89 million for a 2.1% COLA to both general-purpose funds and categorical programs.
- \$57 million for part-time faculty compensation and \$7.2 million for part-time faculty office hours (makes funding permanent by placing in the base budget).
- \$169 million for 69 capital outlay projects.
- \$131 million in program reductions (CalWORKS), matriculation activities, telecommunications and technology infrastructure program).

Mr. Lenz's comments:

Echoing what has been said by the representatives of the other systems, the proposed budget for the California Community Colleges (CCC) is not bad considering the size of the State deficit. During the early 1990s, for four years there were no cost of living increases and no funding for enrollment growth. Student fees increased to \$13 per unit. Just now, since 1995, the community colleges have been able to get the resources to make up for the lean years and there have been great strides in restoring student access, including reducing the fee to \$11 per unit. But with the potential for a \$12.4 billion deficit, that has changed.

The following are key points for the California Community Colleges:

- Unlike the State University and the University of California, for the California Community Colleges there is no benefit to raising student fees because they are used as an offset for General Fund resources received from the State. For every \$1 increase in per-unit fees, \$15 million is generated – but then State funding is decreased by an equal amount. The community colleges would like to see that policy reconsidered.
- A property tax revenue estimate is used to determine the budget for the community colleges, as it is for K-12 schools. The difference is that when the estimate falls short, the State backfills the funding for K-12 but not for the California Community Colleges. That policy should be changed. In the proposed budget, the community colleges are actually getting less General Fund money. The estimate for prop-

erty tax revenues is healthy and that is where the overall increase in funding comes from. If the estimate does not come to fruition, the California Community Colleges will not get the budgeted amount.

- The Governor has used a \$1 billion figure for the required growth in Prop. 98 funding, but the Legislative Analyst puts the amount at \$2.1 billion. If that is correct, there may be an added \$1 billion when the May Revise is issued. The Prop. 98 split traditionally gives the California Community Colleges a 10.2 or 10.3% share. That's another policy that the community colleges would like to see changed so that community colleges are given a larger share.
- One of the California Community College's highest priorities for this budget was restoring base dollars for instruction and maintenance. The California Community Colleges submitted \$875 million in budget change proposals. The proposed budget provides only \$110,015,000 of those while making deep cuts in some areas. The greatest concern for the community colleges that needs to be resolved in some way is the \$26 million cut in matriculation. These services are critical to our entry students: initial counseling, an assessment of skills, identification of the courses needed. Students come to campus and they need some direction. There has been no augmentation for this area since 1994-95. The budget for matriculation services is about \$72 million, so the cut represents almost a third of the funding.
- CALWORKS programs were cut \$50 million. The State was paying about \$600 million more than required by the federal maintenance-of-effort level, so this was an area that could be reduced. The administration has said these resources will be shifted to counties to get them more engaged; this is in response to federal criticisms about the way the program operates in California. So these services may not be lost to students. Counties may come to campuses and deliver them or some other mechanism may be used.
- The California Community Colleges appreciate the 3.0% increase for enrollment growth, but community colleges are growing much more. The LA chancellor, with nine campuses the largest community college district in the system, reports that he has 7,000 un-funded FTS currently and is still growing. When the economy turns down, one of the first places that people come for retraining and upgrading of skills is a community college. There is also the potential for a domino effect if the University of California raises fees or students cannot get into a State University and instead turn to community colleges. The California Community Colleges has an ongoing concern about student population growth.
- The budget proposes a major initiative on workforce preparation that would consolidate efforts in a new labor agency. Apprenticeships

would be taken out of community colleges; vocational education and adult education responsibility would be put under community colleges. This would require resources, and it re-ignites a longstanding debate about who should deliver these services. The proposal needs to be looked at carefully before the California Community Colleges takes on these programs. The community college system is prepared to embrace it, but a number of questions about expectations, level of accountability and resources need to be addressed.

- Regarding capital outlay, there are two issues: the first is that the funding is not enough to meet the California Community College's needs and the second is that the one-third split is not an allocation that works for the community colleges. The current proposal of \$2 billion for higher education every two years would provide the community colleges with \$700 million each two-year cycle. That won't meet our needs for student access. The California Community Colleges want to continue to work with the University and the State University systems and avoid infighting, but one goal is to continue to work on the allocation formula to try to work out an agreement.

The approach that the community colleges will take is to demonstrate the human impact of the cuts and highlight the downside of making these cuts. The California Community Colleges prefers to be allowed to make the decisions about where cuts will be made rather than having the cuts dictated.

Q&A

- 1. Counselors are very important, especially in our outreach effort to minority students. Why did the administration cut matriculation services?**

When the California Community Colleges asked the same question, the response was that, given the difficult decisions that California faced, the cuts had to be taken somewhere and this area did not have a direct instructional impact in the classroom. But these services have such a benefit for students that they will be a priority for restoration.

- 2. CSU and UC would like to see a student fee policy? What is the position of the California Community Colleges?**

The community colleges would like to see at some point a fee policy that would ensure fees are affordable, predictable and beneficial to community colleges (rather than simply offsetting General Fund allocations). But the community colleges trustees would not be proponents of raising fees in just the context of fees. It should be a broader discussion about the percentage of cost that students should be expected to cover and then what other resources would be used to make

up the rest. Then the discussion has some relationship to something that makes sense rather than just raising fees and imposing a user tax on students. Right now, there is not recognition of the actual dollars that need to be committed to these systems to make them work. If you start from that point and from their focus on where the different dollars should come from – and some component of that would be a student fee – then you can determine criteria for setting fees.

3. What is the impact of cuts on the Chancellor's Office?

The California Community Colleges Chancellor's Office cannot do now what is expected of it. This proposed cut (15.5 positions) would be devastating. The community colleges have been afforded some resources since the 1990s cutbacks to build back over the years. But the current year and the proposed budget are a giant step backwards. The community colleges will have to look at what they can continue to be done well and what they can no longer be done.

4. What are the priorities for community colleges in terms of technology funding?

The California Community Colleges have been able to make investments in both equipment and instruction -- critical areas. We want to ensure that students who come to the community colleges with skills are not frustrated in the labs and in getting the assistance they need to further develop those skills. Campuses also have to have the expertise to know when upgrades are needed and when training needs to be done. Some of the investment in the past have been covered by Partnership for Excellence dollars, but the current resources are not sufficient.
